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## THE PROPOSED GERMAN PETROLEUM MONOPOLY

The German government's plan to create a monopoly which shall displace the subsidiaries of the Standard Oil Company in the control of the petroleum trade of the Empire is a matter of the greatest importance to the United States, because kerosene constitutes one of our chief exports, and because Germany has hitherto been one of the chief buyers of this commodity. Many have regarded the project as a direct attack on American interests, and it has even been stated in the press that our government has objected to the proposed discrimination against an American product.<sup>1</sup> In reality, however, neither our State Department nor our exporters have any ground for objection. If we examine the plans for the new monopoly, we find that there is no intention to exclude American kerosene as such, nor even the product of the Standard Oil Company, from the market; and, if we examine the course of events which has brought about the demand for government intervention, we realize that the desire to break the absolute control which a foreign trust has established over the import and sale of a commodity of immense importance to the middle and lower classes is perfectly justifiable. The history of the petroleum trade in the Fatherland has shown that such intervention alone can do away with the domination of the Standard Oil Company, and assure to the poorer consumer reasonable prices for his chief source of artificial light.

Refined petroleum was first shipped to Germany from America packed in barrels on board sailing vessels, and was distributed by river or railway to the numerous inland wholesale dealers. For many years the firms of F. E. Schütte in Bremen and W. A. Riedemann in Geestemünde were the leading importers, because of their superior equipment and organization. They bought their oil entirely from the Standard Oil Company, which had practically a monopoly of the supply before the development of the Austrian and Russian wells.<sup>2</sup> In 1877 they handled 213,000 tons of kerosene,<sup>3</sup> which they sent to all parts of Germany and to Austria and

<sup>1</sup>See the *Philadelphia Public Ledger*, March 1, 1914.

<sup>2</sup>This account of the events leading to the establishment of the Standard Oil Company's monopoly is based chiefly on: Rudolf Schneider, *Der Petroleumhandel* (Zeitschrift für die gesamte Staatswissenschaft, Ergänzungsheft III, 1902), pp. 60-94; Oswald Brackel and Joseph Leis, *Der dreissigjährige Petroleumkrieg* (Berlin, 1903); and Georg Spies, *Zwei Denkschriften zum Petroleum-Monopol* (Berlin, Puttkammer & Mühlbrecht, 1913).

<sup>3</sup>Schneider, *op. cit.*, p. 62.

Switzerland as well. During the decade following this date, they were engaged in hot competition with importers in Hamburg, who had a great advantage in the cheap transportation into the interior afforded by the Elbe. Finding that they were rapidly losing ground, Riedemann and Schütte determined on a daring experiment, by which they hoped to reduce their ocean freight costs, and thus to neutralize their rivals' geographical advantage. They had one of their sailing vessels fitted with tanks into which the petroleum could be pumped without being put in barrels. Such ships were already used by a Russian firm on the Caspian Sea, but no one had ever attempted to send one across the ocean. In spite of all predictions of disaster, however, the experiment was a complete success, and the Bremen firms immediately had fifteen large tank steamers built, as well as reservoirs to take the place of the warehouses where they had formerly stored their barrels. By 1889 they had regained their leading position.<sup>4</sup>

Their competitors were not slow to take advantage of their example. Firms at the Elbe and Rhine ports secured not only ocean tank steamers but river tank steamers, which made it possible for them to send oil far into the interior more cheaply than the Bremen importers, relying mainly on the railways, could hope to do. In the year 1890-1891 Riedemann and Schütte had again fallen behind. Their place was taken by two importers operating on the Rhine: Philip Poth at Mannheim, and Rieth at Mannheim and Antwerp. The former acquired several ocean and river tank steamers in 1890, and also used tank-cars on the railways. He worked in close connection with import firms at Antwerp and Rotterdam, and instead of buying his oil from the Standard Oil Company, as the Bremen firms had always done, he established relations with independent American producers. Rieth, on the other hand, obtained his supply from the increasingly productive Russian wells at Baku.<sup>5</sup> These two firms, with strong organization and superior transportation facilities, soon outstripped their less favorably situated competitors at Bremen and Hamburg, and extended their operations over a great section of Germany.<sup>6</sup>

These developments of course involved a serious loss to the Standard Oil Company, and the petroleum imported by way of the Rhine threatened to drive that sold by the trust's customers from

<sup>4</sup> *Schneider*, pp. 65-66.

<sup>5</sup> Russian petroleum was first imported into Germany in 1883. See *Schneider*, *op. cit.*, p. 60.

<sup>6</sup> *Ibid.*, p. 67.

the market. To avert this danger, the latter decided to take control of the import trade itself. On February 22, 1890, it founded its first and most important German subsidiary, the Deutsch-Amerikanische Petroleum-Gesellschaft, generally referred to as the D. A. P. G., in which it controlled half of the voting stock.<sup>7</sup> The rest of the shares were distributed among importers in Bremen, Hamburg, Königsberg, and Stettin, who had formerly been correspondents of the Standard, and who were now forced to turn over their business to the new company if they did not wish to risk their large fixed capital in a contest with the power which controlled their source of supply.

The D. A. P. G. at once entered on a campaign to secure entire control of the import trade. Tank-ships and tank-cars were bought, and a selling organization was built up in the interior. The center of operations was shifted to Hamburg, but provision was made for importing kerosene also by way of the Rhine, where nine tank-ships were put in operation. A war of extermination was begun against Poth and Rieth. In this the advantage lay entirely on the side of the trust, whose greater resources enabled it to keep up a cut-throat price competition indefinitely. Poth and Rieth were limited in their operations to a comparatively small district, since they could not profitably transport oil by rail to any great distance from their reservoirs in the Rhine valley. In this district the D. A. P. G. sold at lower and lower prices, while making a profit in other parts of the Empire.<sup>8</sup> At each important distributing center one wholesale dealer was employed, being guaranteed against loss and ordered to underbid Poth's and Rieth's customers at all costs. When the other wholesale dealers were no longer able to keep up the contest, they were invited to sign contracts providing that they buy their oil in the future entirely from the D. A. P. G. Poth, in spite of the hopelessness of the fight, held out valiantly for five years, but the imports of Russian oil by Rieth practically ceased in 1893. In 1896 both of the independent

<sup>7</sup> *Schneider*, pp. 68-69.

<sup>8</sup> *Schneider* (*op. cit.*, p. 69) gives the following table of the prices at various places on Oct. 5, 1894. The figures are for 100 kg. net weight petroleum, exclusive of duty.

<i>In district of competition</i>		<i>Elsewhere</i>	
Cologne .....	M. 7.60	Hamburg .....	M. 10.10
Mayence .....	8.50	Bremen .....	10.00
Mannheim .....	8.80	Berlin .....	10.30
		Breslau .....	11.20

importers surrendered, and the D. A. P. G. found itself in practically undisputed possession of the German market.<sup>9</sup>

The years following 1896 were spent by the Standard Oil Company in perfecting its selling organization and taking measures against possible future competition. The plants of Poth and of Rassow, Jung and Co., another hitherto independent firm in Bremen, were combined in the Mannheim-Bremer Petroleum Gesellschaft, which for some time kept up a pretence of competing with the D. A. P. G. Other firms which had been subjugated by competition were also reorganized as branches of the trust. These numerous subsidiary companies, while nominally competing, in reality worked together along lines laid down by the American directors of the D. A. P. G.; and each supplied the section which geographically belonged to it. Every city was furnished with oil from the nearest sea or river port, and with the least possible expense for transportation. The various branches had a complete equipment of tank-steamers and tank-cars. At the important distributing points large reservoirs were erected, where the oil was stored until it could be sold.<sup>10</sup> To protect itself against future competition from outside sources, the Standard also began to extend its control to the inland wholesale dealers. The latter were to a great extent already dependent upon it, because, owing to the difficulty of keeping large quantities of oil on hand, they must provide for their supply by making contracts for frequent delivery of relatively small quantities during a long period. In 1897, the trust attempted to include in all such contracts a secret agreement by which the wholesale dealer bound himself to buy all of his oil from one of its branches, and agreed to confine his operations to a limited district.<sup>11</sup> A general outburst of public indignation forced the giving up of this plan, but the division of territory could still be accomplished by the insertion in each selling agreement of a clause providing that the petroleum should be shipped from the dealer's reservoir or warehouse only in barrels. Thus, since shipping oil in this form over long distances was too expensive to be profitable, the territory of each was closely limited, and prices could be lowered in any one district to destroy a competitor.

Nevertheless, the trust did not long enjoy its absolute monopoly. About 1897 the Deutsch-Russische Naptha-Import-Gesellschaft

<sup>9</sup> *Schneider*, p. 69.

<sup>10</sup> *Ibid.*, pp. 70-75.

<sup>11</sup> A copy of one of these contracts is given in Brackel and Leis, *op. cit.*, p. 354.

began to import Baku kerosene in large quantities and to sell considerably cheaper than the D. A. P. G. could profitably do.<sup>12</sup> Within a few years the new firm had attained a large share in the market, but about 1900 it suddenly gave up its belligerent attitude, and seemed content with a relatively unimportant part in the total imports. The price of the inferior Baku oil remained only a little below that of the American product, and rose and fell with the latter, without any serious attempt on the part of the Russian company to underbid its rivals. The reason for this change in policy seems to have been an agreement between the Rockefeller interests and the Nobel firm, the chief Russian producer, by which the markets of the world were divided and Germany was recognized as the domain of the Standard Oil Company. This agreement was broken off in 1905, but at that time the Deutsch-Russische Naptha-Import-Gesellschaft was not strong enough to begin another price war.

During the contest with the Russians, the Standard made another advance in its distributing organization. Forced to sell its oil at the lowest possible price, it decided to eliminate the wholesale firms as far as possible by dealing directly with the shopkeepers. Reservoirs, into which the oil flowed of its own weight from the tank-cars, were built at the railroad stations; and from these the oil was pumped into tank-wagons, by which it was delivered in small quantities to the retail dealers.<sup>13</sup> The latter were bound to the trust by contracts. Receptacles and equipment for keeping and selling the oil were lent to them, to be withdrawn if they violated their agreements. They were supervised constantly by travelling inspectors. Against such an invasion of their field of business the wholesale dealers were helpless. It was manifestly impossible for them to compete with a firm on which they depended for their supply, and which arbitrarily controlled prices and alone had access to the statistics on which prices were based. Those dealers whose business was not bodily taken away were forced into still greater subservience to the import firms. The destruction of the wholesale petroleum trade aroused much bitterness against the trust in business circles, but in reality it was a great gain for the consumer. The middleman was in most cases unnecessary, and his profits made a needless item in the retail cost of the oil.

During the last few years the Standard Oil Company has sup-

<sup>12</sup> Schneider, *op. cit.*, pp. 76-77.

<sup>13</sup> Spies, *op. cit.*, pp. 18-19.

plied kerosene direct to the consumer by means of can delivery. Tins of three, five, and ten liters capacity are filled from the reservoir, and distributed through the streets or along country roads by wagons, the receptacles being lent temporarily to the customers. This method of retail selling has proved the cheapest and most convenient means of supplying the market, and has largely taken the place of other forms of distribution in the districts where it has been put in operation.<sup>14</sup>

With the American trust in such complete control of the import and sale of kerosene, it was even more difficult than before for an outside firm to obtain any considerable share in the German market. Nevertheless, competing companies have not been entirely excluded. The American Pure Oil Company has sold a little oil for several years,<sup>15</sup> but it can be hardly be considered independent, since Mr. Rockefeller is said to own a large part of the stock. The Olex, an Austrian concern selling Galician oil, has, with the consent of the D. A. P. G., supplied a large district in the eastern part of Germany.<sup>16</sup> The Deutsch-Russische Naptha-Import-Gesellschaft continued to import a limited quantity of petroleum even after it ceased to compete actively with the American concerns. The most serious attempt to break the power of the Standard Oil Company, however, was that financed by the Deutsche Bank, after the course of the Deutsch-Russische Naptha-Import-Gesellschaft had made it clear that the Russian producers were ready to leave the market in the undisputed control of the trust. In 1901 this bank acquired a majority of the stock of the Steaua Romana, the most important Roumanian oil-producing company, which possessed extensive and very rich petroleum fields as yet largely undeveloped. It was reorganized as a German firm, and its productive capacity was greatly increased by improvements in methods and in transportation facilities. To sell its kerosene, the bank created the Petroleum-Produkte Aktien-Gesellschaft in Hamburg, and later the Deutsche Petroleum Aktien-Gesellschaft in Berlin. An alliance was formed with the Russian export firms of Nobel and Rothschild in the European Petroleum Union, and American kerosene was bought from the Shell Company and the Pure Oil Company. Large quantities of mixed Roumanian and American oil were put on the market. The Standard, however, was too powerful

<sup>14</sup> Spies, *op. cit.*, p. 19.

<sup>15</sup> 65,804 out of 659,302 tons in 1909. See *ibid.*, p. 24.

<sup>16</sup> 104,945 tons in 1909. See Spies, *op. cit.*, p. 88.

for the new competitors, and the bank suffered such serious financial losses that its dependent companies were finally forced to make an agreement with the D. A. P. G. by which they were conceded a quota of twenty per cent in the German market, but were subjected to the control of their rival in regard to the method and terms of sale.<sup>17</sup> This arrangement has recently been broken off because of the bank's interest in the movement for a legalized monopoly.

For several years the Standard Oil Company has had little serious competition. In 1904 the D. A. P. G. was reorganized, the trust buying all of the stock and substituting American directors in place of the former German directors. Besides this company, the trust now has a number of other branches which take part in the German petroleum trade. These are: the Mannheim-Bremer Petroleum Aktien-Gesellschaft, the Königsberger Handelscompagnie, the Amerikanische Petroleum Anlagen in Neuss, the American Petroleum Company in Antwerp, and the refinery of the August Korff Aktien-Gesellschaft in Bremen.<sup>18</sup> In addition it is now said to control the German selling organization of the Pure Oil Company.<sup>19</sup> It owns a majority of the voting stock in each of its subsidiaries, and of course takes care that they do no injury to one another's interests.

The almost complete control by one foreign concern of the import trade in so important a commodity as petroleum, and especially the extension of that control to the wholesale and retail business, has been looked on with much dissatisfaction in business and administrative circles. The Standard Oil Company has not, indeed, seriously abused its position, for it has greatly reduced the cost of putting kerosene on the market, and under its régime prices have gone down rather than up, although they were raised somewhat in the first months of 1912.<sup>20</sup> Nevertheless, after it became clear that no private company could compete with the monopoly, there arose a strong demand for government intervention. It was felt that there was grave danger of a general increase in price when the trust should have completed its control and suc-

<sup>17</sup> This agreement was concluded in 1907, and was to have run until 1915. At the same time other agreements were made covering most of the countries of Europe. See *ibid.*, pp. 21-23.

<sup>18</sup> See the *Begründung zum Gesetzentwurf über den Verkehr mit Leuchtöl*, Reichstag Drucksachen, 13. Legislatur-Periode, 1. Sess., 1912, No. 544, p. 11.

<sup>19</sup> The D. A. P. G. denies that it controls the selling organization of the Pure Oil Company. See *Warum ein Reichs-Petroleummonopol?* (Deutsche Amerikanische Petroleum-Gesellschaft, Nov., 1912), p. 11.

<sup>20</sup> See the *Begründung*, pp. 13, 94.



ceeded finally in shutting out all competitors from the market. Oil-lighting is still so much cheaper than gas or electricity that a considerable increase in cost would be possible without materially decreasing the demand; and such an increase would work hardship among the middle and lower classes. This would be especially true in the country districts, where other forms of light cannot usually be obtained as substitutes. Exclusive dependence on a foreign firm might also result in the cutting off of the supply in time of war. To these patriotic and humanitarian considerations was added a lively desire on the part of German financiers, especially those connected with the Deutsche Bank, to create a better market for the product of the Roumanian oil wells, in which a large part of the total capital invested is German.<sup>21</sup>

On March 15, 1911, the Reichstag, in a resolution, called on the government to investigate the conditions in the petroleum trade, in order to determine how much danger there was that the Standard Oil Company would obtain a monopoly of the German market, and to decide whether some form of government intervention were advisable. After more than a year of consideration, an extensive report was submitted to the Reichstag in November, 1912.<sup>22</sup> Of the numerous measures urged on the government, only three seemed worthy of serious consideration: the creation of an independent inland refining industry, through preferential duties favoring crude as against refined oil; the taking over of the sale of petroleum by the government itself, as a state monopoly; and the erection of a private monopoly, under government control. The first of these expedients was rejected on the ground that an inland refining industry would not be able to maintain its independence, since it must depend on the trust for its supply of crude oil. Russian and Roumanian crude oils could not be used, because the relatively small proportion of kerosene which they contain makes refining near the wells, and in a locality where the residue can be used for fuel, a necessity. The second proposal was also considered impracticable. A government monopoly would require a great increase in the number of imperial officials, which would be distasteful to the administration and to the public, and the services of men of the necessary initiative and business ability could

<sup>21</sup> The proportion in 1906 was 63 per cent, according to Franz Gehrke in *Die neuere Entwicklung des Petroleumhandels in Deutschland* (*Zeitschrift für die gesamte Staatswissenschaft*, Ergänzungsheft XX, 1906), p. 36.

<sup>22</sup> This report is the *Begründung* cited in note 18. It contains the text of the proposed law.

hardly be secured for the salaries usually paid by the state. The element of risk in the petroleum business also makes it an unsuitable field for government activity.<sup>23</sup>

The third measure seemed to embody the advantages of a state monopoly, while avoiding its disadvantages. The Bundesrat accordingly drew up a bill providing for the creation of a corporation which should be given a monopoly of the import and wholesale petroleum trade for a period of thirty years. The proposed company is to confine its operations to Germany in all but exceptional cases, and is to deal only in large amounts of oil. At the end of thirty years the government may either allow the concern to continue its activities, or it may take over and carry on the sale of kerosene itself.<sup>24</sup>

The monopoly is to be a private corporation operated for the benefit of the stockholders, who are to be on the one hand a group of great banks and on the other ordinary investors. The capital of sixty million marks is to be divided between two classes of stock. The shares of the first class will be taken by a group of banks, and will entitle the holders to an increased voting power, so that in the general assembly the *consortium* will have at least half of the votes. This stock is to be deposited with the Reichsbank, and is to be transferable only with the consent of the imperial chancellor. In the division of profits no distinction will be made between it and the second class of shares, which will be sold on the open market.

The new concern will be under the constant and close control of the government. To supervise its affairs, the imperial chancellor will appoint a commissioner, who will be entitled to take part in the directors' meetings and in the general assembly and who may at any time demand reports in regard to the company's affairs from the directors or from the executive committee. The books and papers are open to his inspection, and if he finds that decisions or orders are inconsistent with the laws or with the constitution and by-laws of the corporation itself he may forbid their being carried out. Furthermore, the election of the board of directors, of their chairman, and of the executive committee must be confirmed by the chancellor. The latter will appoint a council of

<sup>23</sup> The various solutions proposed, with the arguments for and against each one, are discussed in the *Begründung*.

<sup>24</sup> The bill, with an explanation of its provisions, is printed in the *Begründung*. Spies criticises it from the standpoint of the petroleum dealer (*op. cit.*, pp. 90-140).

twenty expert advisors to assist the commissioner in his work and to supervise the business methods of the monopoly.

To protect the public from exploitation, a very elaborate scheme for the regulation of prices and the limitation of profits has been worked out. The earnings of the monopoly are to be divided as follows. After the deduction of all expenses, 10 per cent of the remaining profits is to be added to the reserve fund, until that shall have reached a sum equal to half of the capital, and the rest is to be apportioned between the stockholders, the imperial treasury, and a price-levelling fund. The amount received by each depends on the average price of kerosene during the year in question, 20 pfennigs a liter at the company's reservoir being fixed as the maximum which ought to be charged.<sup>25</sup> At this price the company may pay a dividend of 5 per cent; and the imperial treasury receives the profits remaining after this has been paid, up to a sum four times as great as that distributed to the stockholders. If there is still something left over it is turned into the price-levelling fund. When the company is unable to sell at 20 pfennigs, the Empire gives up its share of the profits, and the amount which the stockholders may receive decreases geometrically with the rising price. A maximum dividend of 4 per cent may be paid if the price is 22 pfennigs or above. If the average during the year falls below 20 pfennigs, the profits allowed to the stockholders, and the share of the Empire, which is four times that of the company, increase geometrically with the sinking price. All sums remaining after the payment of the permissible dividend and of the government's quota are added to the price-levelling fund, which is to be drawn on in years when without its use the price must be above 20 pfennigs. If the present steady decline in the consumption of kerosene continues, the company will be allowed slightly to increase the profit which it makes on each liter, in order that it may pay a reasonable dividend on its capital stock. By these measures the government aims to make it to the advantage of the monopoly to sell oil at the lowest possible price, and also hopes to secure for itself a considerable income, which it intends to use for social purposes, such as old-age pensions and workingmen's insurance.

The proposed corporation will take over all plants and equipment heretofore used in the import and wholesale trade in petro-

<sup>25</sup> This will mean a price to the consumer of 23 pf., which is considerably higher than the present price in most German cities. See Spies, *op. cit.*, p. 96.

leum, and will compensate existing firms for being forced to give up their business. It will also compensate such officials of these firms as it does not itself employ. In the course of competition the Standard Oil Company and its rivals have acquired a large amount of duplicate equipment which would be of no use to the new company, and there are also a large number of officials who would be superfluous under the new régime. These measures would thus involve a considerable expense, and in addition a fleet of tanksteamers must at once be provided, since without them it would hardly be possible to secure oil from the poorly organized independent producers. The cost of putting the monopoly in operation would therefore be very great, and in this matter alone the company would be in a much less favorable position financially than are the Standard's affiliated organizations at the present time.

The proposed law has naturally aroused great interest in Germany. Although the monopoly of the Standard Oil Company has not hitherto been oppressive, there seems to be a strong feeling in favor of displacing it through a concern entirely in German hands. The Bundesrat's bill was introduced into the Reichstag at the winter session of 1912-1913, and met with general approval from the press and from business organizations. The committee to which it was referred modified it slightly to lessen the influence of the Deutsche Bank. The government's armament bill occupied the Reichstag so completely during the spring of 1912-1913 that it was impossible to act on the petroleum monopoly, but it has been officially announced that the matter will be brought up again as soon as circumstances permit. At present, the bill is still in the committee stage.<sup>26</sup> The branches of the trust have naturally made an energetic fight against the threatened state interference, and have offered substantial concessions to their rivals and to the government, in their effort to procure an abandonment of the measure.

The three most important arguments made by the opponents of the bill are: that the great banks interested in the project will derive undue advantage therefrom; that the new monopoly will be forced into dependence upon the Standard Oil Company for its supply; and that the change will result in the sale of petroleum of inferior quality at prices as high as or higher than at present.

Those who advance the first argument point out that the Deutsche Bank and other financial organizations which will control the new

<sup>26</sup> March 1, 1914.

monopoly also have extensive interests in one of the most important of the prospective sources of supply, the Roumanian oil wells.<sup>27</sup> By charging exorbitant prices for the product of the latter, they could still exploit the consumers in spite of the profit-regulating scheme. However high the price of kerosene, they will still be allowed to receive a 4 per cent return on their investment in the monopoly, and so could afford to renounce the higher profits permissible with lower prices in Germany if they made a greater clear gain from their Roumanian wells. There seems little danger, however, that the banks will be willing or able to do this. Both the force of public opinion and the control exercised over the monopoly by the government would deter them from such high handed robbery.

The second argument against the bill has received more serious consideration, for the ability of such a company as is proposed to obtain sufficient oil from sources independent of the Standard Oil Company is open to doubt.<sup>28</sup> The government investigated this question before preparing the bill now under consideration, and it asserts that it has been able to make preliminary agreements, assuring a plentiful supply of kerosene at reasonable prices, with independent companies in Russia, Austria, Roumania, and America. According to these, about 300,000 tons of refined petroleum would be obtained from the three former countries, and the remaining 450,000 tons necessary to supply the German market from the United States.<sup>29</sup> Kerosene will also be bought from the Standard Oil Company, if a satisfactory arrangement can be made.<sup>30</sup>

In the light of present conditions in the world's great petroleum-producing districts, the government's assertions seem rather optimistic. Germany now consumes more kerosene than any other country which does not produce an important part of its own supply, having imported 755,199 tons in 1911.<sup>31</sup> Whether this great quantity can be obtained without depending on the trust can only be determined by examining the nature and importance of the independent sources of supply. At present America produces

<sup>27</sup> See especially Spies, *op. cit.*, pp. 120-121.

<sup>28</sup> In a Berlin despatch to the *Philadelphia Public Ledger* of Feb. 27, 1914, the doubt as to a supply of oil from independent sources is referred to as the chief obstacle at present to the establishment of the monopoly.

<sup>29</sup> See the *Norddeutsche Allgemeine Zeitung*, Feb. 8, 1913.

<sup>30</sup> See the *Begründung*, p. 16.

<sup>31</sup> Georg Spies, *Die Leuchtöl-Disponibilität für ein deutsches Petroleum-Monopol*. (Berlin, Puttkammer & Mühlbrecht, 1913), p. 4.

by far the largest part of the world's output of crude oil, and in the production of kerosene its preponderance is still greater, because of the extensive use of petroleum for fuel in Russia and Roumania. Most of the American refineries are in the hands of the Standard Oil Company, or subject to its control through their use of its transportation facilities.<sup>32</sup> There are, indeed, independent companies; but how far they can be relied upon to supply the major part of Germany's annual consumption, and whether they will be able to maintain their present independence, is doubtful. As the advocates of the monopoly plan point out, however, an assured share in a great market would strengthen these producers and make it more difficult for the trust to absorb them. But, at best, their prices must be somewhat higher than those at which the latter is able to sell, since they do not enjoy the benefits of the Standard's highly developed transportation system.

Next to the United States, Russia is by far the most important petroleum-producing country. The greater part of the crude oil from the Baku wells is used as fuel in the form of "masut"; and in 1911 the total exports of kerosene were only 475,000 tons, of which more than half went to Turkey, Egypt, and other countries near the Black Sea.<sup>33</sup> The exports were decreasing, and the Russian oil was everywhere giving way before the American product.<sup>34</sup> The producers are disorganized and are handicapped by the lack of transportation facilities; and their crude oil is of inferior quality, yielding only 30-35 per cent of refined kerosene, as compared with 60-75 per cent obtained from the crude oil of the Pennsylvania and Ohio wells.<sup>35</sup> Russian oil, however, has always sold somewhat cheaper than American, except during the price war of 1890-1895. It has been greatly improved in recent years by

<sup>32</sup> The following stocks are regularly listed as "Standard Oil Subsidiaries" in the *Philadelphia Public Ledger*: Anglo-American Oil, Atlantic Refining, Borne-Scrymser, Buckeye Pipe Line, Chesbrough Manufacturing, Colonial Oil, Continental Oil, Crescent Pipe Line, Cumberland Pipe Line, Eureka Pipe Line, Galena Signal Oil, Indiana Pipe Line, National Transit, New York Transit, Northern Pipe Line, Ohio Oil, Pierce Oil, Prairie Oil and Gas, Southern Pipe Line, Southern Pennsylvania Oil, Solar Refining, Standard Oil companies of California, Indiana, Kansas, Kentucky, Nebraska, New Jersey, New York, and Ohio, Swan and Finch, Union Tank Line, Vacuum Oil, Washington Oil, Waters-Pierce.

<sup>33</sup> Spies, *Die Leuchtöl-Disponibilität für ein deutsches Petroleummonopol*, p. 4.

<sup>34</sup> *Begründung*, p. 74.

<sup>35</sup> Gehrke, *op. cit.*, p. 19.

better refining methods, and can now be burned in the same lamps as the American kerosene. The Baku wells will doubtless be able to furnish a considerable part of the supply of the new German monopoly, and in the future, with improvements in means of transportation, they will probably be able to offer increasing amounts at low prices.

The source of supply in which those advocating the monopoly have the most interest is Roumania. This country possesses great and rich oil fields which have thus far been only partially developed, owing to lack of capital. In 1900 and again in 1903 the Standard Oil Company attempted to get control of the greater part of these, but was repulsed by the Roumanian government.<sup>36</sup> Most of the crude oil output is used as fuel on the railroads and on the steamships, and only 323,012 tons of kerosene were exported in 1911. This went chiefly to Egypt, Great Britain, and Turkey, and less than 25,000 tons found its way to Germany.<sup>37</sup> The most important of the Roumanian exporters, the Steaua Romana, is, however, controlled by the Deutsche Bank and operated as a German firm; and this company hopes to sell almost its entire product to the new monopoly. The oil is of good quality, and can be put on the market very cheaply, as the production costs are low and the Danube affords inexpensive transportation. Nevertheless, the limited quantity will prevent this kerosene, for the present at least, from doing very much towards solving the problem of supplying the German demand.

The fourth source from which the government expects to obtain oil is Austria. The refineries of Galicia produced only 540,000 tons in 1911, and most of this was used within the dual monarchy. About 220,000 tons were handled by the Olex, the exporting organization of the combined refineries, and 161,719 tons of this came to Germany.<sup>38</sup> The Deutsche Erdöl Aktien-Gesellschaft bought a majority of the shares of the Olex in March, 1912, and has entered into an agreement with the Standard Oil Company in order to make it possible to sell Galician oil and German oil, of which it controls almost the entire output, without suffering from the destructive competition by which oil from other countries has been kept from the market.<sup>39</sup> On account of this agreement,

<sup>36</sup> For an extensive description of the Roumanian oil district, with its history up to 1904, see Brackel and Leis, *op. cit.*

<sup>37</sup> *Begründung*, p. 77.

<sup>38</sup> *Ibid.*, p. 72.

<sup>39</sup> See the *Norddeutsche Allgemeine Zeitung* for Oct. 18, 1912.

the banks owning the stock of the Erdöl Gesellschaft have been refused a share in forming the new monopoly, and there has been a bitter exchange of recriminations between them and the group interested in the Roumanian oil fields. The Erdöl Gesellschaft has opposed the monopoly plan, and has entered into an agreement with the Standard which assures it a 20 per cent share in the German market.<sup>40</sup> The controversy between the banks will hardly encourage the coöperation of the Olex in making the new monopoly a success. Even if Austrian oil is obtained, it does not seem likely to be imported in very large amounts, since the product of the Galician wells has shown a tendency to decline in recent years.<sup>41</sup>

We have, then, on the one hand, Russia, Roumania, and Austria, and on the other the independent American companies. The combined exports of the three former countries in 1911 were 974,412 tons, or but little more than the total amount required in Germany.<sup>42</sup> When we consider that Russia and Roumania have important markets in the East, which will continue to consume an increasing quantity of their oil, and that each also sells a large amount to England and to other European countries, we can see that the monopoly will still be forced to depend to a very great extent on American kerosene. Whether this can be obtained from independent companies is the question on which the success of the entire plan rests. If the company is forced to buy any considerable portion of its supply from the Standard, this dependence, judging from the past history of that combination, will become greater and greater, and the intervention of the government will have accomplished little of real importance. The new organization will become to all intents and purposes merely a selling agent of the trust.

The opponents of the bill further assert that the new monopoly, instead of protecting the public from extortion at the hands of the Standard Oil Company, will in reality be forced to raise the price of petroleum, in spite of the elaborate price-limiting scheme. They maintain that the company cannot otherwise be operated

<sup>40</sup> This was announced in an open letter published in the German newspapers Feb. 22, 1913.

<sup>41</sup> According to statistics published by the Deutsche Petroleum Aktien-Gesellschaft, the Galician crude oil production was 275,000 tons less in 1912 than in 1911. (*Münchener Neueste Nachrichten*, Feb. 25, 1913.)

<sup>42</sup> *Die Leuchtöl Disponibilität*, etc. Spies, however, asserts in his *Zwei Denkschriften*, pp. 25-36, that these countries would refine far more kerosene if they could find a market for it.



with a profit. The maximum established by the proposed law, 20 pfennigs a liter at the reservoir, would result in a retail price considerably higher than that which has been charged by the Standard Oil Company.<sup>43</sup> They say the monopoly will not be able to do business even at this price because of the great initial expenses of organization, of building a tank-fleet, and of compensating those at present engaged in the petroleum trade. The necessity of bringing oil from so many different sources of supply—of operating tank-ships on the Atlantic, on the Black Sea, and on the Danube—will offer a much more difficult transportation problem than the Standard has had to deal with. The abolition of the present system of tank-wagon and can delivery will mean another item in the cost to the consumer. It is also feared that the control from the side of the government will result in less efficiency.

The question of cost, like the question of supply, can be answered only by experience, as there are at present no comprehensive statistics of the petroleum trade in Germany except those in the hands of the Standard Oil Company. The government, relying on opinions of independent German dealers, estimates that the monopoly would be able to sell to the shopkeepers at about 19 pfennigs a liter under conditions such as prevailed in 1912. This, however, represents little more than a mere guess, and hardly answers the arguments of those who fear an increase in the cost to the consumer. Furthermore, it does not take into consideration the admitted steady decrease in consumption, which will make it more difficult for the monopoly to make its business pay.

However problematic the success of this German experiment, its career will be watched with sympathetic interest by all who regard with apprehension the attempts of the Standard Oil Company to obtain a world monopoly. The trust has already exerted itself to defeat the project, and may be expected to use all of its vast power in the effort to bring the new company under its control. Failure in this would mean the partial or entire loss of the Standard's best foreign market. It would also encourage other countries, perhaps, to follow the German example, and thus would break up the trust's control of the European petroleum trade. Independent oil producers in America would have a valuable support in their efforts to resist absorption, and the producers of Russia and Roumania would be able to sell their petroleum in markets from

<sup>43</sup> In its pamphlet *Das Reichs-Petroleummonopol* (Nov., 1912), the D. A. P. G. states that it delivered oil to the retail dealer in 1911 at an average price of 16.16 pfennigs per liter.

which they had hitherto been excluded by unfair competition. The development of the world's mineral oil resources would be stimulated and accelerated.

DANA G. MUNRO.

NOTE. In addition to the authorities mentioned in footnotes, the following may be referred to: Joseph Leis, *Das Leuchtöl-Gesetz in handelspolitischer Beleuchtung* (Regensburg, 1912); Georg Spies, *Petroleummonopol-Gewinn-Tabellen* (Dresden, 1913); F. W. Möller, *Die Versorgung der Welt mit Petroleum, mit besonderer Berücksichtigung Deutschlands* (Berlin, 1913); W. Möller, *Das Reichspetroleummonopol* (Berlin, 1913); H. Rheinstrom, *Ein Reichsmonopol für Leuchtöl* (Munich and Berlin, 1912); C. D. Chamberlin, *Die unabhängige Petroleumindustrie in Amerika* (Berlin, 1913); O. Schneider, "Das Petroleummonopol," (*Schmollers Jahrbuch*, Jan., 1913); *Empfiehlt sich die Einführung eines Reichsmonopols für Petroleum?* and *Ein Petroleummonopol aus Furcht* (pamphlets of the Deutsch-Amerikanische Petroleum-Gesellschaft, Oct., 1911; Oct., 1912); *Unsere Stellung zum Petroleummonopol* (Deutsche Erdöl-Aktiengesellschaft); R. Nöllenburg, *Die Versorgungsmöglichkeit eines Reichspetroleummonopols*; H. Heymann, *Spies und das Petroleummonopol* (pamphlet, 1913); *Das Reichs-Petroleum-Monopol und die Deutsch-Amerikanische Petroleum-Gesellschaft* (Deutsche Petroleum-Verkaufs-Gesellschaft); Petition of the officials of the Standard Oil Company's subsidiaries in Germany to the Reichstag, in regard to paragraph 11 of the Petroleum Monopoly bill (1912).